

April 16, 2010

**Honorable Mayor, Common Council members
and Citizens of Franklin:**

Introduction

The Comprehensive Annual Financial Report of the City of Franklin, Wisconsin for the fiscal year ended December 31, 2009, is hereby submitted. State law requires that all general purpose local governments with a population over 25,000 publish within six months of the end of the fiscal year a complete set of financial statements presented in conformity with general accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Franklin (City). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh the benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Clifton Gunderson LLP, a firm of licensed public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended December 31, 2009, are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended December 31, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

City Profile

The City of Franklin, incorporated in 1956, is located in the southwestern corner of Milwaukee County. The City is 34.5 square miles in size and has a population of 33,700. Over the last ten years the City has experienced an average annual population increase of 2.0% per year. The city is a residential community with a growing commercial and industrial base. It is considered to be one of the more desirable communities in the Milwaukee metropolitan area in which to live and work. The City provides a typical range of municipal services for a suburban community including police and fire protection; emergency medical/paramedic, library, health and sanitary services; building inspection and zoning control; street, sanitary, storm sewer and water construction and maintenance. The City is authorized to levy property tax on real and personal property located within its boundaries.

The City operates under the mayor/council form of government. Policy making and legislative authority are vested in a governing council consisting of the mayor and six council members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees and hiring a city attorney. The City's mayor is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government and for appointing the heads of the various departments. The council is elected, by district, on a non-partisan basis. The Mayor and Council members serve staggered three-year terms. The City is organized into departments, headed by fourteen officials appointed by the Mayor or Director of Administration and confirmed by the Common Council. Numerous boards, commissions and committees allow for citizen involvement in government by providing a forum for policy input to the Council and guidance to the departments.

The City provides a full range of services, including police, fire protection and emergency medical services; street construction, maintenance of highways, streets and other infrastructure; recreational and cultural activities and sanitation services. Library service is provided through a separate Library Board that functions like a department of the City and engages the Library Director. Water service is provided through a separate Water Utility that functions like a department of the City. These two areas therefore have been included as an integral part of the City's financial statements. The City also is financially accountable for a legally separate Community Development Authority (Authority). The Authority was established to finance and construct a City Business Park located within the City of Franklin Tax Incremental Financing District No. 2. The Authority's activities are reported within the City's financial statements. Additional information on the Authority can be found in Note 1 in the notes to the financial statements.

The budgetary process serves as the foundation of the City's financial planning and control system. The preparation of a forecast for the existing programs for the following year is prepared during June and July. Departmental requests for personnel changes and new capital outlay expenditures are made by the middle of August. The Mayor then reviews the forecast including recommended personnel and capital outlay expenditures and determines by mid August the personnel and capital outlay expenditures that will be included in the initial departmental requested budgets. The departments take this information and submit their requested budgets by the end of August. The budgets are reviewed and the Mayor submits his recommended budget by the end of September. The Council through its Finance Committee reviews the recommended budget and submits a proposed budget to the Council by mid October. The Council is required to hold a public hearing on the proposed budget in early November, and then adopts a final budget in mid November. The adopted budget is prepared by fund, function (e.g. Public Safety), and department (e.g.

Police). Transfers of appropriations between funds, functions or department require the approval of the governing council. Budget-to-actual comparisons are provided in this report for each fund with an adopted budget. The General Fund comparison is presented in Exhibit F as part of the basic financial statements for the government funds and in Schedules 3 & 4 of the supplementary information. For governmental funds, other than the General Fund, with adopted budgets this comparison is presented in the supplementary information section of this report.

The information presented in the financial statements is perhaps best understood when considered from the broader perspective of the environment that the City operates.

Economic Condition and Outlook

In line with economic slowdowns nationally and regionally, the pace of growth in Franklin in 2009 continued to be down significantly both in the residential and the non-residential sectors. The 25 units of new residential construction was down 48.1% from 2008 and 92.5% below the 331 units averaged during the previous ten years. The value of non-residential construction dropped 49.9% from 2008 and was 68.7% below the average value realized during the previous ten years. Prospects in 2010 for residential, commercial and industrial development is anticipated to approximate 2009 levels.

Estimated actual property values have grown at an average annual rate of 7.8% since 1999. The new growth net of TIF Districts was \$38.2 million in 2009 \$49.8 million in 2008 and \$80.9 million in 2007. The growth in 2010 is expected to be in the \$20 million dollar range reflecting the slowdowns during the last three years. Growth after 2010 is expected to return to levels higher than the past few years. The history of higher growth has allowed the City to maintain a relatively low municipal tax rate while still funding the increased cost of services required as a result of the City's growth.

Residential Growth

Over the past ten years, residential valuation has grown at an average annual rate of 8.3%. In 2009, permits for 25 new equivalent residential units were issued. The decrease from the prior year reflects the continued area housing slowdown in residential construction. Lingering effects of the slowdown will keep growth from new construction in 2010, at about the same level as 2009. Longer range the City remains attractive to builders and potential residents.

Commercial and Industrial Growth

Over the past ten years, commercial and industrial valuation has increased at an average annual rate of 11.9%. In 2009, 35 building permits were issued for commercial and industrial projects. The value of those projects decreased by 49.9% from the 2008 level.

The City's Business Park has 19 acres (6%) unsold with another 47 acres (14%) sold but not yet developed. The total incremental value of the Business Park, which comprises the City's TIF District No. 2, exceeded \$169 million in equalized value at January 1, 2009. This value and the projected increases in values should generate sufficient tax increment to repay the existing TIF District debt by 2011, the last scheduled principal repayment date. Based on preliminary projections, when the TIF District No. 2 is closed (currently expected

to be in 2012), over \$180 million of additional value is expected to be added to the property tax rolls.

In 2005 the City established two new TIF Districts (#3 & #4) on the eastern side of the City. The two districts have experienced a good start with increments of \$85 and \$20 Million, respectively.

Anticipated residential growth will continue to place demands on the commercial sector for goods and services that, in turn, is expected to continue the trend of commercial growth. Expansion of the commercial and industrial tax base is a goal of the City with respect to the overall tax rate, as 73.8% of the City's property value is currently residential down from 74.9% the prior year. Future tax relief will need to come from industrial and commercial tax base expansion.

Organizational and Service Growth

The year 2009 was a year of revenue shortfall for the City approximating \$1 Million. Development revenue continued to decline due to the economic slowdown, ambulance revenue and interest revenue made some significant adjustments necessary. A hiring freeze was reestablished in the early part of the year resulting in a number of vacant positions not being filled resulted in a reduced level of expenditures.

Planning efforts culminated this year in the revision of the comprehensive master plan. The low level of activity was reflected in reduced City construction and park development projects. The Health Department continued its outreach to the local schools and continued offering immunizations at businesses in the Business and Industrial Parks, including Hepatitis B vaccines. The H1N1 issue was addressed to provide protection for residents.

2009 was not a City-wide property re-assessment year. The last re-assessment was done in 2006 with a revaluation scheduled for 2010. Performing revaluations on a regular basis is in line with the Common Council's policy decision to schedule a revaluation every three years to keep property values in line with current market values. The State determined that the local assessments were 96.7% of fair value. The estimated actual value of City properties exceeds \$3.8 billion.

The challenge for the operating departments in 2009 was to maintain the service levels at a time of declining revenues to the City and a growth of 1.1% in new properties. Limited tax growth did not provide resources to maintain services in the light of other revenue declines and employment cutbacks and budget stringencies were necessary.

Internal Controls

The City's internal control structure is subject to ongoing evaluation by management. The City is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with laws, regulations and good financial policies. The results of the City's audit for the fiscal year ended December 31, 2009 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws or regulations. As a recipient of federal and state financial assistance, if the level of grant expenditures exceeds an established level, currently \$500,000, a single audit of grants is required. The City was not required to have a single audit of grants for 2009.

Budgeting Controls

The City maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Common Council. Activities of the General Fund, Library Fund, Sanitary Sewer Fund, Debt Service Fund, Capital Outlay Fund, Capital Improvement Fund, Equipment Replacement Fund and Street Improvement Fund are included in the annual appropriated budget. The legal level for budgetary control is at the function level (e.g. public safety) within individual funds. The legal level of control is defined as the level at which expenditures cannot legally exceed the appropriated amount without a resolution approved by Common Council. Any unencumbered appropriations lapse at year end.

Long range financial planning is in place especially for the Capital funds and debt service funds to insure that resources are in place to meet committed projects and insure that there is adequate funding for projects prior to their approval and that adequate funding is in place for debt that has been or will be incurred with an appropriate plan for repayment.

Financial Policies

The City maintains policies on fund balance level, debt policy, investment policies, budget forecasting policy and a capitalization policy. These policies together with conservative management has resulted in a number of actions that has served the City well. For example six positions (three layoffs) were eliminated during the process of developing the 2009 budget which aided the budget in 2009 by reducing the cost pressure on the organization. The fund balance policy influenced the decision to take advantage of the low asphalt pricing and double the amount of projects to be done in 2009 which has reduced the pressure of road resurfacing for 2010 and 2011. The debt policy that influenced the decision to call and repay debt when the investment policy led to increased liquidity at a time of historic low investment rates.

Cash Management

Short term cash is pooled and invested in demand deposits, savings deposits and the State of Wisconsin Local Government Investment Pool. Cash reserves are invested by an investment manager in commercial paper, U.S. Treasury notes, Government Agency instruments, corporate notes and U.S. Treasury money market funds until needed for operations. Interest income from these programs are allocated to the various funds based on their respective balances of the pooled investments. The lower rate environment provided challenges to safely obtain the highest rate possible knowing that overall interest in any event would be significantly below the prior year.

Risk Management

The City is exposed to a wide variety of risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care for its employees. Third-party insurance is maintained for workers' compensation, property, liability and many other potential losses. The City offers full time and some part time employees a group health and dental plan, which is self-insured by the City. The risk of this plan is reduced through the purchase of an excess loss health insurance policy with a deductible of \$50,000 per covered participant.

Pension

The City provides pension benefits to its employees. The public works, sewer and water and maintenance employees are covered by a single employer defined benefit pension plan. The Police and Fire employees are covered by the Wisconsin Retirement System pension program. The remainder of eligible employees are covered by a defined contribution pension plan.

Other Post employment benefits

In addition to pensions, the City also provides postretirement health care benefits for certain retirees and their dependants. As of the end of the current fiscal year there were 18 retired employees receiving some type of postretirement health care benefits. Effective January 1, 2008 the City implemented Government Accounting Standards Board (GASB) Statement No. 45, Accounting for post employment benefits. This new standard requires the City to account for post retirement health costs over the working lives of the employees. The City of Franklin has also elected to fund the annual required contribution under the standard and has established a trust for the investment of those funds until needed to pay benefits.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This was the sixteenth consecutive year that the City has received this award.

In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR whose contents conform to program standards. Such report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements. We will be submitting the CAFR to the GFOA to determine its eligibility for a 2009 Certificate.

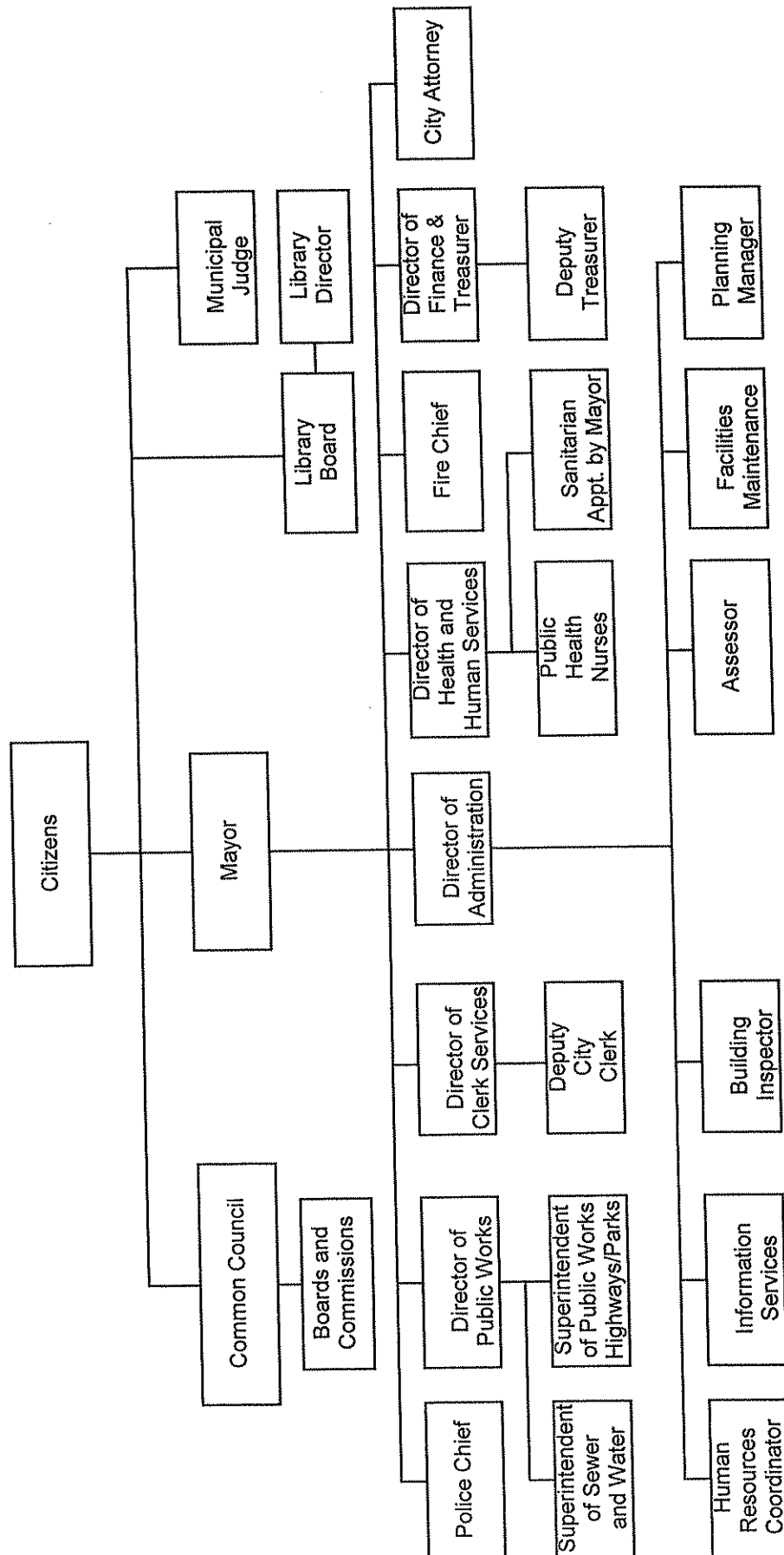
Acknowledgments

Preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the Finance Department staff. Appreciation is also extended to all other City employees who contributed to its preparation. We also thank the Mayor, Common Council, and Finance Committee for their interest and support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

Calvin A. Patterson
Director of Finance & Treasurer

City of Franklin
Organization Chart
Chart 1



**CITY OF FRANKLIN
LIST OF PRINCIPAL OFFICIALS**

Elected Officials

<u>Title</u>	<u>Name</u>
Mayor	Tom Taylor
Aldermen:	
District No. 1	Steve Olson
District No. 2	Tim Solomon
District No. 3	Kristen Wilhelm
District No. 4	Steve F. Taylor
District No. 5	Lyle Sohns
District No. 6	Ken Skowronski
Municipal Judge	Fred Klimetz

Non-elected Officials

Assessor	Mark Link
Building Inspector	Fred Baumgart
City Attorney	Jesse Wesolowski
City Clerk	Sandi Wesolowski
City Engineer/Public Works Director	John Bennett
Director of Administration	Mark Luberta
Director of Finance & Treasurer	Cal Patterson
Director of Health & Human Services	Bill Wucherer
Fire Chief	Jim Martins
Human Resources Coordinator	Dana Zahn
Library Director	Barbara Roark
Planning Manager	Joel Dietl
Police Chief	Rick Oliva
Superintendent of Public Works	Jerry Schaefer
Superintendent of Sewer & Water	Roy Kainz

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Franklin
Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized, handwritten signature in black ink, likely belonging to the President of the GFOA.

President

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director